

STATE OF MAINE  
PUBLIC UTILITIES COMMISSION

Docket No. 2004-637

October 13, 2004

MAINE PUBLIC SERVICE COMPANY  
Application for Approval of  
\$6.0 Million Term Note (§ 902)

ORDER APPROVING  
ISSUANCE OF  
SECURITIES

WELCH, Chairman; DIAMOND & REISHUS, Commissioners

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**I. SUMMARY**

On September 14, 2004, Maine Public Service Company (MPS or the Company) filed with the Commission its application for approval to issue a 7-year unsecured term note for \$6.0 million to Fleet National Bank (Fleet or the Bank). MPS proposes that this note be approved at a variable rate of interest of 1.50% over the 30-day, 60-day or 90-day London Inter-Bank Offering Rate (LIBOR) index. This Order approves the Company's request.

**II. BACKGROUND & DECISION**

This transaction serves to refinance capital expenditures that the Company temporarily financed with its revolving line of credit. Although the interest rate on medium or long-term debt is typically higher than the rate on short-term debt, it is common practice and appropriate to permanently fund medium and long-term assets with medium or long-term debt as opposed to using short-term debt. MPS has not indicated that this transaction by itself will result in any rate impact for its ratepayers.

At the time of closing, MPS will choose among the 30-day, 60-day or 90-day LIBOR rates as the basis off of which its borrowing rate will be determined. Recently the 30, 60 and 90-day LIBOR indexes were between approximately 1.85% and 1.95%, and at an agreed upon margin of 1.50% over the selected LIBOR Index, MPS's potential borrowing rate will be between 3.35% and 3.45% at the outset. Theoretically, because the debt will be re-priced at 30, 60 or 90-day intervals, there is no upper limit on the interest rate for the Company.<sup>1</sup> In the current low fixed-interest rate environment, the selection of a variable interest rate might seem to be a needlessly risky decision. However, the Company's existing (approximately \$31.0 million) medium and long-term debt portfolio currently carries a fixed interest rate and MPS believes that allowing \$6.0 million to float at lower variable rates is not overly risky and may in fact be beneficial. MPS also has experience in using interest rate swaps to cap variable interest rate

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<sup>1</sup> We note that on January 1, 2001, the 90-day LIBOR rate stood was 6.37%. It declined steadily thereafter, reaching 2.20% on November 1, 2001, and the index has been below that level ever since.

exposure and has stated that it will closely monitor the interest rate market and will act to cap its exposure if it deems that necessary.

Given the Company's past experience and the amount involved here, we will leave it to the discretion of MPS to decide whether or not to cap its variable interest rate on this instrument. If MPS chooses to forego a rate cap, it will bear the risk in any future proceeding in which embedded debt costs are scrutinized. For these reasons we find it reasonable to approve the Company's request for variable-rate medium-term financing.

Having reviewed the application of the Company, together with data filed in support of it, it is the opinion of the Commission that the proceeds of the issuance of the bonds are required in good faith for the purposes enumerated in 35-A M.R.S.A. § 901. In approving this securities issue, consistent with normal practice and pursuant to section 902(4), the Commission does not imply approval of the Company's capital needs or capitalization ratio for ratemaking purposes, nor does this order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, we

O R D E R

1. That Maine Public Service Company is hereby authorized to issue a \$6.0 million term note to Fleet National Bank with a term not exceed seven years at a variable rate of interest of 1.50% over the 30-day, 60-day or 90-day LIBOR index, as selected by the Company, to be used solely for the purposes described in this order.

2. That the Company report, in writing, to this Commission its actions pursuant to this order within ninety (90) days of closing of this transaction.

3. That a copy of this Order be mailed to interested parties and this Docket be closed.

Dated at Augusta, Maine, this 13<sup>th</sup> day of October, 2004.

BY ORDER OF THE COMMISSION

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Dennis L. Keschl  
Administrative Director

COMMISSIONERS VOTING FOR:      Welch  
   Diamond  
   Reishus

## NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 21 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.